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ABSTRACT

This report analyzes the special education funding reforms that were implemented in Pennsylvania for the 1991-1992 school year. The new funding mechanism was designed to reduce incentives for special education placements and to shift greater control over special education program and funding decisions to local school districts. After an introductory chapter, the second chapter examines the historical context for reform, noting the previous 100 percent excess cost funding system, the growth in special education, and the role of fiscal crisis in driving reform. The third chapter reports on interviews with 18 interested parties concerning the major issues leading to reform, including rising costs, increasing special education identification, lack of local involvement, unpredictability of funding, and the funding formula's incentive for more restrictive placements. The fourth chapter outlines the principal objectives for special education finance reform such as controlling state costs and increasing district accountability. Chapter 5 explains the new formula in which school districts receive extra reimbursements for fixed percentages of their average daily membership to cover special education costs. The sixth chapter reports on impact of the reforms on cost containment, local responsibility, service delivery, instructional support teams, fiscal incentives, and general accountability. A concluding chapter notes interviewees' general satisfaction with the funding system but also some concerns including issues of the quality of services being provided. (Contains 10 references.) (DB)

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State Analysis Series

A Profile of Special Education Finance Reform in Pennsylvania

Deborah L. Montgomery
Michele DeSera
August 1996

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The Center for Special Education Finance (CSEF) was established in October 1992 to address a comprehensive set of fiscal issues related to the delivery and support of special education services to children throughout the U.S. The Center's mission is to provide information needed by policymakers to make informed decisions regarding the provision of services to children with disabilities, and to provide opportunities for information sharing regarding critical fiscal policy issues.

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CSEF issues similar profiles of reform in other states, as well as state-level cost analyses, as part of our *State Analysis Series*.

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I. Introduction

Since its inception in 1992, the Center for Special Education Finance (CSEF) has been examining special education finance policy and reform at the federal and state levels. In particular, CSEF has focused in-depth attention on *state-level* finance reform through surveys of state and local education agencies, cost and impact studies in selected states, and extensive interaction with special education policymakers and practitioners across the states.

In 1994, CSEF reported a period of "unprecedented" reform, with 18 states having implemented changes in their special education funding systems during the past 5 years and more than half the states in the nation investigating ways to implement change (Parrish, 1994). CSEF's recently completed survey of states for the 1994–95 school year confirms that states continue to implement and consider special education funding reform, in a continuing environment of rising special education enrollments and costs and increased competition for limited public resources (Parrish, O'Reilly, Dueñas, forthcoming).

Pennsylvania is one of those states where major special education funding reform has been implemented during the last 5 years. The Pennsylvania model of reform has generated significant national interest, both as a prototype for review and study by CSEF and by numerous other state officials and legislatures currently pursuing revisions in their respective funding systems (Parrish & Montgomery, 1995). Understanding the historical context for reform in Pennsylvania, as well as its implementation and perceived impact, is particularly useful because of the state's unique funding policy and the forces driving funding reform in Pennsylvania that are common in many other states as well.

Until recent reforms were implemented for the 1991–92 school year, Pennsylvania was the only state in the country that funded *all* of the "excess cost" of educating children with disabilities. Pennsylvania also had a history of providing special

education services through regional or intermediate units (IUs), which was fostered by the state's special education funding system. The new funding mechanism was designed to reduce incentives for special education placements in general, and to provide greater control over special education program and funding decisions to local school districts. In essence, the "new system represented a major change in the philosophy of financing special education and a concerted effort to empower school districts, as well as control runaway costs" (Parrish & Montgomery, 1995).

Within the context of widespread reform of both general and special education finance, an examination of the background and implementation of special education finance reform in Pennsylvania should provide constructive counsel to decisionmakers involved in education program and finance policy at all levels. To this end, this paper traces the historical context for fiscal reform in Pennsylvania as it relates to special education policy, programs, and services. It also describes the objectives for reform and the mechanics of the new state funding system for special education, and presents a summary of interviews with state and local stakeholders during the second year of statewide implementation of the new formula (1993–94). Interviews were conducted by the Center for Special Education Finance (CSEF) in an effort to document the perception of staff, parents, and advocacy groups directly affected by the reforms, and to assess the impact of the new funding system on special education programs and services.

II. Historical Context for Reform

Before enactment of the Education for all Handicapped Children Act of 1975 (P.L. 94–142), Pennsylvania provided special education programs to nearly all children with disabilities then served in public schools through 67 county school offices. (Many students, typically more severely disabled, were excluded from public schools and were served by the Department of Welfare or private agencies.) In the early 1970s, these county school offices were consolidated into 29 regional service agencies or intermediate units, which inherited the responsibility for providing special education services. Within a year after this consolidation, Pennsylvania signed a consent agreement in PARC v. Commonwealth (1972), which required the state to locate and educate all mentally retarded children. By 1991, many intermediate units operated programs for students whose districts did not provide their own programs. In fact, for the 1990–91 school year, approximately 42 percent of the state special education allocation was distributed directly to intermediate units.

Excess Cost Funding System

Until reforms were implemented for the 1991–92 school year, Pennsylvania was the only state in the nation funding 100 percent of the "excess costs" of educating children with disabilities. Pennsylvania had a state aid formula for special education which paid to the district all approved excess costs incurred over the regular per pupil cost of the district. In addition to its complete general fund budget, each district submitted its annual special education budget, including salaries, administrative costs, equipment, and supplies. The state calculated both the regular and special education expenditures per average daily membership (ADM) for both elementary and secondary programs. The difference between

special and regular education per pupil expenditures at each level became the basis for state aid. Intermediate units (IUs) were funded at 100 percent by the state.

According to Hartman (1988), the funding system treated intermediate unit programs differently than school district programs in the way excess costs were defined and funded. School districts received state funding for the excess cost per student of special education, with the district responsible for the equivalent of its regular education per pupil cost. Intermediate units, with no taxing authority, received reimbursement for the full cost of providing special education, from a combination of district, state, and federal funds.

The funding system favored the intermediate units. Intermediate units received state funding in the year of program operation, and all categories of expenditures for special education programs were eligible for funding. The funding mechanism provided for the Commonwealth to recover from districts the regular education share, or "tuition recovery," at the end of the year *following* that in which the student was educated. The mechanism used a tuition rate calculated 2 years prior, and was therefore substantially deflated (Feir, 1992). In addition, authorized excess cost categories were more limited for districts, and for example, did not include administration and employee health insurance expenditures. Districts were somewhat insulated from the costs of providing special education services. *Due to these policies, the state funding system contributed to the growth of intermediate units as the principal special education service providers in the state.*

Growth in Special Education

During the 1980s, despite massive enrollment declines in Pennsylvania's general education school-age population, the state experienced substantial growth in the number of students served in special education programs. Many districts relied exclusively on intermediate units for special education services. In 1987 and 1988, studies conducted by the House Education Committee and the state Secretary of Education revealed problems within the special education system. These included

> too many referrals for special education evaluations, too long a wait for evaluations, too many placements in programs for mild learning disabilities, too little movement back to regular education programs, too much segregated programming, and too little connection between special education programs and the 'regular' programs from which children were referred and to which, presumably, they were being prepared to return (Feir 1992, p. 5).

Increasing costs from the growth in special education enrollments put a strain on the state budget. In 1987–88, the state was $50 million short due to unanticipated

rates of special education reimbursements. By 1988–89, the deficit had grown to $104 million.

Fiscal Crisis Drives Reform

■ 1989 — A mandate for reform (Act 43)

By the late 1980s, Pennsylvania was in severe fiscal crisis in the delivery of special education services and programs to its nearly 300,000 children classified as exceptional. Feir (1992, p. 5) concluded that "the fiscal crisis simmered for nearly a decade, obvious at first to only a few special education finance cognoscenti." At the end of the 1981–82 fiscal year, the Commonwealth of Pennsylvania had a $2 million deficit in special education reimbursement owed to school districts. By 1988–89, the shortfall had skyrocketed to $104 million with the promise of the new school year requiring dollars far exceeding the annual line item appropriated by the General Assembly. These exorbitant shortfalls in money owed to Pennsylvania public schools had accrued despite total annual special education expenditures of nearly $1 billion.

To many state policymakers, it appeared that the special education funding mechanism of "excess cost" had become a blank check to Pennsylvania public schools and intermediate units and a bottomless hole to the Commonwealth. This is because there was virtually no mechanism to cap the amount of money reimbursed to the districts and IUs. Feir (1992, p. 5) concluded that "while increased special education costs on a per pupil basis during the 1980s were comparable to those in other states, it appears that there was some abuse of a system in which someone else (the state) paid all the costs." Year after year, costs continued to skyrocket, and more children continued to be channeled into separate special education programs.

At the onset of Governor Robert P. Casey's administration in 1987, this fiscal crisis could no longer be denied, or ignored and left in arrears. The newly appointed Secretary of Education commissioned a comprehensive study of Pennsylvania's special education programs and finance system to review the current mechanism and make recommendations for alternative solutions. According to the study, Hartman (1988, p. 7) found that in theory, the excess cost funding system "is simple, but the implementation in Pennsylvania is complex and, in its current status, flawed. Conceptually, basing the funding on a cost difference per student yields undesirable programmatic and financial results."

During the spring of 1989, the state legislature sought a solution to this funding crisis. Unable to reach a consensus before the June 30 budget deadline, the legislature appropriated the additional amount ($104 million) for the 1989–90 school year, and passed Act 43 on July 1, 1989. Act 43 required the state Board of Education to approve and adopt measures by March 1, 1990, "to assure fiscal accountability; prudent management; appropriate education support services and special classes to meet the needs of pupils; and assurance of continued service to children receiving special education instruction and services" (Act of July 1, 1989, P.L. 253, No. 43).

■ 1990 — Instructional Support Teams

Between July 1989 and January 1990, the State Board of Education's special education committee conducted eight public meetings and the full Board held four public hearings in an attempt to revise Pennsylvania's special education program and fiscal regulations. Early in 1990, the Governor proposed to replace the excess cost funding system with a formula that would eventually sever the connection between local costs and state funding. Due to intense lobbying from intermediate units and school districts, the General Assembly failed to act by the spring of 1990. As a result, the 1990–91 budget included enough money to pay intermediate unit programs for that year, and $89 million to pay prior year obligations to school districts. No commitment regarding state special education obligations was made to districts by the legislature for 1990–91.

Revised state special education regulations, however, did take effect on July 1, 1990. The most significant programmatic change was the emphasis on the instructional needs of students. This was reflected in the requirement that after a 5-year phase-in period, an instructional support team (IST), including the student's teacher, the principal, and a specially trained instructional support teacher, would intervene and develop instructional strategies prior to referral for a special education evaluation. Although this required the dedication of additional state resources, the phase-in of ISTs was expected to pay for itself within 10 years, if it resulted in a 25 percent reduction in learning disability placements. During 1990–91, the first full year of implementation, 191 schools had ISTs in place, and *these schools experienced a 46 percent reduction in special education placements compared with the previous year.*

■ 1991 — New funding formula based on ADM (Act 25)

In February 1991, the Governor again proposed a new funding system for special education to be phased in over a period of 2 years, gradually reducing direct state support for intermediate units. Serious revenue shortfalls and the recessionary economy complicated state budget development at this time, and the General Assembly was forced to enact the largest tax increase in the state's history. At that time, a new formula for funding special education, based on the average daily membership (ADM) of the school-age population, was finally adopted as Act 25 in August 1991, replacing the excess cost formula. The 1991–92 school year was one of transition, with special education funding provided by a combination of the excess cost system and the new percentage funding formula based on overall ADM.

Act 25 of 1991, Pennsylvania's special education finance reform legislation, resulted in sweeping changes that dealt with many long-running, pervasive problems. Foremost among the alterations were strategies to address the inherent incentives in the former funding mechanism, which produced the spiraling costs and dramatic increases in children identified with disabilities. These incentives, including state payment of all costs over and above those already borne by school districts, as well as full reimbursement to intermediate units to operate special education programs, encouraged the identification of special education students and the provision of services outside of school district domains. Act 25's allocation of the majority of special education funds directly to districts, in combination with the new emphasis on the instructional needs of students, brought significant reforms to the delivery of special education services.

Pennsylvania's new funding approach has sparked national interest regarding the long-term impact on Pennsylvania's 501 school districts, 13,000 teachers, and nearly 300,000 students enrolled in special education services and programs. (Chapter V outlines the details of the new funding system.)

III. Perceptions of the Major Issues Leading to Reform

Eighteen telephone interviews with a diverse set of interested parties across the state were conducted by CSEF staff during the second year of full implementation of the new funding formula (1993–1994). Policymakers, special education directors, superintendents, principals, parents, and representatives from the state school boards' association, the Pennsylvania State Education Association (a NEA affiliate), and other advocacy groups were interviewed. The majority of those interviewed identified rising state costs, increasing special education enrollments, and the lack of local interest as key concerns with the prior funding system.

Rising Costs

Regarding the rising state costs of special education, it was clear to most of the respondents that the excess cost system had provided no incentive to control expenditures, and as a result, the state was "spending money it didn't have" and handing "blank checks" to districts. Respondents also acknowledged that this pattern of spiraling costs had been occurring for years, with the state bearing the burden of "runaway" costs. Revenue shortfalls plagued special education funding. The annual funding commitment for the Commonwealth was greater than the revenues appropriated for special education. In essence, the state was forced to use "next year's dollars to pay this year's bills," a trend expected to worsen in future years.

Increasing Special Education Identification

The excess cost funding formula provided a fiscal incentive to identify and maintain students in special education, and the identification of special education students was growing without a corresponding incentive to return students to

regular education placements. An instructional support coordinator in her twenty-second year of teaching remarked:

> Since I started teaching, there has been an incredible increase in the identification of special education students. Something had to be done. People were placing kids in special education for lack of anything else to do with them. Once in, not a lot was being done to "due process" them out of special education. What was originally to be a two-year remediation program, in many instances became a life sentence—and these "many instances" became the norm.

Due to the absence of mandated prereferral interventions, students at risk of school failure were often immediately referred to a multidisciplinary, special education evaluation team. A Director of Special Education shared his perception; "In many situations, this was the only method of securing assistance for a student who was not performing successfully." The excess cost formula provided an incentive to identify increasing numbers of children, with the promise of virtually unlimited reimbursement for special services. It appears that this unchecked availability of funds created a culture in which educators may not have been as solution-oriented as they might have been in meeting the special needs of their students

Lack of Local Involvement

A number of respondents expressed concern that districts lacked involvement in the planning of students' special education services. Due to the direct funding of intermediate units, and other incentives for districts to use intermediate unit services, districts essentially forfeited much of their control over special education programs and services. Parents commented that this created a disincentive within districts to view special education children as belonging in neighborhood schools. A parent stated, "The way the money was handed down, the school districts didn't see any obligation to keep an eye on services or kids—they were able to wash their hands of it."

Unpredictability

Many district directors and policymakers referred to the excess cost formula's lack of predictability as a primary area of concern. (In fact, this remains a concern with respect to their Basic Education Funding and the state's equalization formula today.) Although intermediate units received advance funding of approved costs, districts were often faced with having to fund any shortfall in their budget request from their own funds for up to two years. The calculation procedures were complicated by a "lesser of budget or actual" rule used by the state. If the actual

special education instructional cost was greater than the budgeted amount, the school district lost subsidy payments for the difference between the two. This was an incentive for districts to inflate their budget estimates so that the actual amounts were always less than budgeted.

Incentive for More Restrictive Placements

Under the excess cost system, students were counted in full-time-equivalent (FTE) average daily memberships, with the net effect of crediting special education only for the time that students were in special education programs. This procedure inhibited programming options considered appropriate and less restrictive, such as mainstreaming, or "inclusion." Thus, the system created a fiscal incentive to maintain children in more segregated programs and to maximize the percent of time that students were in special education settings. Additionally, these regulations imposed a burdensome bureaucratic procedure on districts to monitor weekly each student's FTE time in special education for annual accounting purposes. Calculation of these numbers was only needed to administer the excess cost funding system, and represented a very time consuming administrative task.

IV. Objectives for Reform

Interviewed respondents also shared their perceptions of the primary objectives behind the reform of special education funding in Pennsylvania. They repeatedly mentioned three main objectives: cost containment, local control and accountability, and removal of fiscal incentives for more restrictive placements. Reduction of paperwork, increase in predictability, and a greater focus on the instructional needs of students were also commonly cited objectives for reform.

By far, the most common perception among interviewees was that the state's main objective for reform was to contain "uncontrolled costs," and to increase predictability for budget planning purposes. Under the prior system, there was no incentive to control costs so that annual expenditures were unpredictable and rising steadily. The prior system contained incentives to overidentify special education students, use more segregated placements, and maximize the percentage of time that students were in special education settings. Weekly accounting of student time in special education was seen as a counterproductive and "burdensome bureaucratic procedure" that should be eliminated.

A director of a large urban district perceived the state's major objective for reform as an effort to control state contributions and shift the financial burden to local districts. This director and others from urban areas expressed frustration over the decline in state funding on top of an already eroding local tax base. A director of an intermediate unit described the state's objective as an attempt to "limit the state's liability" and to encourage school districts to be the "primary operators." A parent said the state's objective was "to give school districts responsibility for money so they know what it's being spent on."

In summary, stakeholder perceptions of the principal objectives for special education finance reform in Pennsylvania included the following:

- To control state costs
- To increase district accountability
- To reformulate philosophy and practice of special education service delivery
- To end fiscal incentives for placing students in special education and intermediate unit programs
- To promote fiscal accountability and prudent management

V. Current Formula

The current funding mechanism for special education in Pennsylvania, enacted in 1991, was designed to end the fiscal incentives for special education identification and more restrictive placements, and to place the accountability for programs with school districts rather than intermediate units. The new system gave districts greater control over special education funding and program decisions, with intermediate units receiving only 5 percent of the total state appropriation. In combination with the programmatic reforms mandating IST intervention prior to identification for special education and permitting special education services to be delivered in the regular classroom, the new system represented a major change in the philosophy of financing special education (primarily funding local districts instead of intermediate units) and a concerted effort to control runaway costs.

Allocations to school districts are based on each district's average daily membership (ADM). Districts receive a fixed dollar amount, which is based solely on their overall ADM. The amounts originally set in 1991–92 were designed to reflect statewide placements and costs. In subsequent years, the percentages and amounts have been altered annually by the General Assembly in conjunction with state budgeting and appropriations. In 1996–97, each district will receive $1,115 per student for 15 percent of its ADM to cover the costs of serving mildly impaired students, and $13,125 per student for 1 percent of its ADM to cover the costs of severely impaired students. These are presumed identification rates, however, with actual rates not affecting the amount of funding received. The formula includes no wealth-based equalization factor, although the formula for the distribution of basic education funds does equalize by district. Gifted and talented programs are funded under the state special education allocation.

In 1994–95, an additional funding stream was established for school districts that incur unusually high costs providing appropriate services and programs for exceptional students. It is available to districts with special education expenditures

that are at least 150 percent of the state average special education expenditure. Qualifying expenditures are paid based on district wealth (aid ratio). By the 1997–98 fiscal year, however, this funding will be incrementally phased out. In addition, 1 percent of the state special education fund is held by the Department of Education as a contingency reserve to pay for extraordinarily expensive special education services.[1]

Intermediate units receive 5 percent of the total state appropriation for special education to maintain core (i.e., administrative) special education services, of which 65 percent is distributed according to the ADM, and 35 percent is distributed as flat grants. Additional payments are targeted to two intermediate units (Philadelphia and Pittsburgh), which previously operated 100 percent of special education programs in their regions. However, these payments will be phased out incrementally by the 1998–99 fiscal year. Intermediate units also receive funding through the Institutionalized Children's Program, based on prior year actual expenditures, and limited by law to that amount (maximum of $20 million in 1996–97).

[1]The contingency fund has ranged from one to two percent of the annual appropriation since 1991–92 (Feir, 1995).

Pennsylvania's Special Education Funding Formula: 1996–97

- Districts receive funding based on a percentage of their total Average Daily Membership (ADM) times a fixed dollar amount.* This amount is based on the following criteria:

  1. Considering *mildly* impaired students, each district receives $1,115 per student for 15 percent of its ADM in 1996–97.

  2. Considering *severely* impaired students, each district receives $13,125 per student for one percent of its ADM in 1996–97.

- The formula currently provides a hold harmless for ADM subsidy, so that districts experiencing declining growth will not receive less than the amount received in 1995–96.

- The formula includes no equalization factor, nor are actual special education incidence rates considered. The formula is simply a means of distributing state funds with no connection to costs of service.

- Intermediate units receive 5 percent of the total state special education appropriation to maintain core special education services, of which 65 percent is distributed according to ADM and 35 percent is distributed as flat grants. (Additional payments are targeted to two intermediate units which previously operated 100 percent of special education programs in their regions.)

- The Secretary of Education withholds 1 percent of state special education funds in the form of a contingency reserve to pay for extraordinarily expensive special education programs.

- Additional funds are provided to districts whose special education expenditures are at least 150 percent of the state average for special education expenditures.

*Funding for gifted and talented programs is provided through the state special education allocation and local resources.

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VI. Impact of Reform

During the second year of full-scale implementation of the new funding formula, CSEF staff interviewed 18 stakeholders to assess the extent to which they believed state objectives had been met. State administrators, superintendents, special education directors, school principals, teachers, parents, policymakers, and representatives of parent advocacy organizations were interviewed by phone. The majority of respondents indicated that the state objectives to contain costs, increase local responsibility, and decrease fiscal incentives for identification of special education students had been achieved. Both positive and negative implications of these results were reported, and are discussed below. Most respondents were pleased with the new system's emphasis on meeting the instructional needs of all students through school-based Instructional Support Teams. However, they also described inconsistencies in the implementation and monitoring of these teams. The following sections highlight the dominant responses pertaining to each of the major areas of impact that were discussed.[2]

Cost Containment

Most respondents readily acknowledged that the primary objective of the new formula, control of runaway costs to the state, had been accomplished. As a state legislative assistant commented, "Now the state decides on the amount to be spent and adjusts the formula." That is, independent of student or district need, the state determines the overall special education allocation. An indirect benefit from the state's point of view is that "the extent to which the state is able to control expenses frees up money for the rest of the educational programs, whereby resources are

[2]More recent interviews, conducted during 1996 by Michele DeSera, co-author of this paper, confirm the findings reported here.

distributed based on district wealth. This has allowed us to invest more in regular education in poorer districts."

From the district perspective, the cap on state spending for special education has meant an increased local burden to meet high costs, particularly in those areas claiming greater concentrations of special education students. Statewide, there has been a perception that many districts have lost money as a result of the new formula. According to an evaluation commissioned by the Department of Education, however, from 1991–92 to 1992–93, approximately 70 percent of districts gained revenues, mostly in the 0–10 percent range but with some increasing above 30 percent. The remaining 30 percent of districts lost revenues in the 0–20 percent range (Hartman, 1993). In 1992–93, the first year of the full formula change, $150 million was redistributed. Hartman (1994) found that

> the state share of funding increased to 54 percent in 1991–92 and 55 percent in 1992–93. For 1993–94, the state share was projected to dip to 51 percent, primarily because of higher budgeted district expenditures and a lower rate of increase in state funding. The district share of special education funding decreased to 46 percent in 1991–92 and to 43 percent in 1992–93. For 1993–94 the district share is projected to increase to 49 percent to fund higher estimated district expenditures. This is still considerably less than the 58 percent district share in 1990–91.

The new formula was said to be misleading in the way it is set up to reimburse by two different percentages for mildly versus severely impaired students. Both the percent and the dollar amount per student were established to distribute a fixed amount of money, without regard to incidence and actual costs. A respondent described a resulting concern: "A lasting problem is that people interpret it as unfair if their incidence is higher than one percent severely handicapped, for example." Those districts with higher concentrations claimed that they were being penalized.

Local Responsibility

The state objective of greater local responsibility appeared to have been achieved, and many respondents indicated that this brought both regular and special educators into closer alignment addressing the needs of a greater number of children. Educators generally felt that the new systems were changing the paradigm of special education such that "special education was beginning to be viewed as temporary help based on student needs" and that regular educators were becoming more actively involved with all students, thereby promoting inclusion.

Service Delivery

The respondents generally agreed that children continue to be served despite the changes in the funding formula. Both educators and parents expressed concerns regarding the quality of services delivered by school districts versus intermediate units. One parent said that "districts have been forced to accept more responsibility, but are not picking up where IUs left off and assuming that responsibility."

In actuality, since the implementation of the new formula there has been a slight decrease—approximately 2 percent per year—in the number of school age children served in special education. This is due primarily to reductions in the number of children in speech and gifted services. Excluding these exceptions, there was an aggregate increase of approximately 2,400 students as of 1993–94.

Instructional Support Teams

Many stakeholders expressed satisfaction with the Instructional Support Teams (ISTs), viewing interventions as temporary versus long-term special education placements, promoting collaborative efforts between regular and special education, and promoting inclusion (although both positive and negative responses toward inclusion were found). Children now can receive academic and/or behavioral intervention when they need it through ISTs rather than well after they need it by failing in regular education and being placed in costly special education programs.

Supporting the data reflecting decreases in the total special education school-age population, Pennsylvania Department of Education data from 1992–93 indicate that schools using ISTs refer up to 46 percent fewer students for special education evaluation than schools that have not yet undertaken the process. Schools using the IST process have also substantially decreased retention rates by as much as 67 percent.[3]

Fiscal Incentives and General Accountability

Under the new funding formula, fiscal incentives no longer exist for placing a child in special education programs, and service delivery options are enhanced for all students through the ISTs. Burdensome paperwork and accounting procedures

[3]A more thorough examination of the cost-effectiveness of ISTs appears in Hartman and Fay, 1996.

formerly required by the state have been reduced, with decisionmaking transferred from the state to the local level. School districts receive current year funding directly and determine locally where and how children will be served. Since districts are now in control of special education revenues and expenditures, respondents felt that there was an "assumption of ownership of special education by local districts." However, the survey respondents generally believed that special education costs are still a significant issue from the local school district perspective.

VII. Conclusion

Those interviewed for this report generally concluded that the state has met its objectives to institute a funding mechanism that would result in the ability to both predict and stabilize costs, and to reformulate the philosophy and practice of special education service and program delivery. Under the new formula-based funding model, the bulk of the appropriation is distributed directly to public schools (versus intermediate units—formerly the largest provider) based primarily upon a school district's ADM (versus an actual incidence rate), multiplied by a fixed dollar amount (versus actual costs). This reform initiative effectively ended the nation's only full excess cost system of financing special education.

Respondents were generally pleased with the greater focus on instructional strategies, the enhanced service delivery options for all children, and the reduced artificial administrative and pedagogical delineation between general and special education.

However, concerns with the current funding system were also expressed. Foremost among the reported comments were issues of the quality of services provided to children with disabilities, such as decreased supervision, larger classes, and lack of training and expertise among teachers and support staff. Associated fiscal concerns are another major issue. The general perception of those interviewed is that the costs of funding special education have been and will continue to be shifted from a state to a local responsibility. Pennsylvania educators fear that the high cost special education programs are encroaching on the already scarce resources available. Interviewees also expressed concerns that a system that does not take into account incidence rates, variations in cost, and issues associated with urban areas is inherently inequitable.

Studies to determine the long-term impact of the Pennsylvania reform initiative on the quality of services rendered to children with disabilities and the cost of providing those services continue.

One study, presently being conducted by Michele DeSera, former state director of special education services in Pennsylvania, will update the findings reported in this paper by examining the "inside" viewpoints of the principal policymakers involved in achieving Pennsylvania's finance reform, with the perspective of 5 years of implementation completed. This study should stimulate further research as to the efficacy of the recently enacted reform and address questions such as these: How will the cost containment efforts enacted by Pennsylvania's reform affect the outcomes achieved by students with disabilities? What additional efforts should be taken to fine-tune the special education funding formula to ensure it appropriately serves all schools and students? Answers to such questions in Pennsylvania and other key reform states should provide guidance to special education policymakers across the nation.

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